Three Ways the Tax Code Helps Low- and Moderate-Income Clients

1. All of the following statements detailing ways that the tax code can help low- and moderate-income clients are correct EXCEPT:
   A. A tax credit is a dollar-for-dollar reduction in the amount of tax that is owed.
   B. A refundable credit is a dollar-for-dollar reduction in taxes owed, but it cannot exceed the taxes that are owed.
   C. A tax credit is always better than a deduction because it is a dollar-for-dollar reduction in tax.
   D. A deduction lowers the amount of income on which a client must pay tax.

2. Which statements(s) regarding the Saver’s Credit is (are) correct?
   I. To qualify for a Saver’s Credit, a client must be 18 or older, not a full-time student, not claimed as a dependent on someone else’s return, and their income must be lower than the specified thresholds.
   II. To encourage low- and moderate-income clients to save for retirement, the tax code allows for the option of a non-refundable tax credit which can offset the cost of saving for retirement.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

3. All of the following statements regarding student loan interest deductions are correct EXCEPT:
   A. The student loan interest deduction is for interest paid on both federal and private student loans, and the deduction cannot exceed $2,500.
   B. A client is not eligible for the deduction if they are claimed as a dependent on someone else’s tax return, are married filing separately, or if the loan was made by a related person.
   C. If a client’s modified adjusted gross income is more than $85,000 as a single, or $170,000 as a married filing jointly, they are not eligible for the deduction.
   D. The student loan interest deduction cannot be taken if the client uses standard deductions and does not itemize when filing taxes.

Do Presidential Elections Predict Market Returns?

4. Which statement(s) regarding Niederhoffer, Gibbs, and Bullock’s analysis of presidential elections and market performance is (are) correct?
   I. According to the summary of Niederhoffer and colleagues, if a Republican bias were justified, one would expect the market to perform significantly better during a Republican administration than a Democratic one.
   II. The analysis of Niederhoffer, Gibbs, and Bullock established a long-term pattern in market movements which justified reports of Wall Street’s Republican bias.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

5. According to updated market data related to elections, all of the following statements are correct EXCEPT:
   A. According to Huang’s analysis of data from 1929 through 1980, higher average market returns were obtained during Republican administrations than during Democratic administrations.
   B. General consensus from 1985 to 2005 was that active traders could make more money by anticipating a short-term market bounce if a Republican won the presidency, but overall market returns would be better under a Democratic administration.
C. After analyzing over 100 years of returns, Jones and Banning found that market returns were higher when real gross domestic product was growing and inflation was lower.

D. In 2014, Chien, Mayer, and Wang reported that over longer trading periods, gross domestic product growth was a more important predictor of stock prices than which party was in the White House.

6. According to the literature, all of the following statements regarding the outcomes associated with presidential elections are correct EXCEPT:
   A. An aggressive investor could potentially use a short-term trading strategy based on who is elected president.
   B. The assumption that equity investors prefer Republicans over Democrats may be market folklore.
   C. The long-term profit or loss earned by an investor appears to be unrelated to which party wins a presidential election.
   D. It is theorized that Democratic policies are often calculated to reduce inflationary pressure at the expense of economic growth, providing a bounce for fixed-income securities while reducing equity returns.

Implementing Guardianship Policies in Special Needs Planning: Five Possible Pitfalls

7. All of the following statements about guardianships are correct EXCEPT:
   A. Before issuing a court order to appoint a full guardian, a judge must first declare a beneficiary as lacking legal capacity.
   B. At its core, a guardianship is a trust relationship in which a court gives one person the duty and power to make personal and/or property decisions for the benefit and protection of a beneficiary.
   C. A total guardianship is designed to care for all of the essential elements of a beneficiary’s health and wellness and must be appointed by a judge.
   D. State law may require guardians to take a beneficiary’s preferences into account when making life-changing decisions.

8. Which statement(s) about the cost of guardians is (are) correct?
   I. When a beneficiary cannot afford a private professional guardian and does not have family members or friends who are willing/able to serve as a guardian, a court will appoint a public guardian at a state’s expense.
   II. Financial planners should note that many guardian fee procedures and compensation schedules are published on state district court websites.
   A. I only  C. Both I and II
   B. II only  D. Neither I nor II

9. All of the following statements about the need for improved government oversight of guardians and guardianship arrangements are correct EXCEPT:
   A. There is a pressing need for policies to improve government oversight of guardians and guardianship arrangements to identify and remove predator guardians who are taking advantage of beneficiaries.
   B. In some jurisdictions, anyone can become a guardian simply by taking a qualifications course, even if they have recently declared bankruptcy.
   C. According to the U.S. House Select Committee on Aging, most states do not require detailed accounts of guardianship activities and do not have the tools to audit all reports.
   D. Guardianship concerns are moving to the forefront of policy agendas in most states, particularly those who have high rates of retirees.
10. Which statement(s) about the procedures used to establish full guardianship is (are) correct?
I. Guardianship is one of the most restrictive means for taking away an individual’s control of their lives.
II. Following the 1987 series of articles in the Associated Press on guardianship concerns, concerted efforts have been made to eliminate problems with guardianship systems.
A. I only   C. Both I and II
B. II only   D. Neither I nor II

11. True or False. In cases of private and public guardians, there is a true risk that any personal need for increased compensation may come at the expense of a beneficiary.
A. True   B. False

12. All of the following statements about collecting accurate and detailed guardianship data are correct EXCEPT:
A. Limited numbers of trained staff and inadequate budget allocations are two reasons given why state governments and federal agencies cannot collect, maintain, and publish accurate guardianship logs.
B. According to the U.S. Government Accountability Office, the extent of elder abuse by guardians nationally is unknown due to limited data on the numbers of guardians serving older adults, older adults [with] guardianships, and cases of elder abuse by a guardian.
C. Most experts agree that often-cited estimates for the number of adults and assets under guardianship in the United States are grossly underestimated because they are based on data from selected states.
D. According to Uekert and Duizend, the number of active pending adult-guardianship cases in the United States could range from fewer than 1 thousand to more than 3 million.

Common Business Valuation Methods and Related Topics

13. All of the following statements about the fundamentals of business valuation are correct EXCEPT:
A. According to Revenue Ruling 59-60, factors which must be considered when valuing the stock of closely held corporations include the book value of the stock and the financial condition of the business.
B. When considering the five mathematical formulas for valuing a business, it is important to complete all five and average them to determine the final value.
C. Rev. Rul. 59-60 serves as a guideline on how to value a business for estate and gift tax purposes, as well as a guideline on how to audit the value of a business as reported on an estate or gift tax return.
D. Rev. Rul. 59-60 has become the foundational document for valuing a business for income tax purposes and auditing the income tax return reporting the sale of an interest in a closely held business.

14. Which statement(s) regarding common valuation methods is (are) correct?
I. The market approach seeks to value a business based on reported sales of other businesses of comparable size, requiring access to statistical data and databases.
II. The business valuation formula based on straight capitalization is used when management believes that future performance will be substantially different than past performance.
A. I only   C. Both I and II
B. II only   D. Neither I nor II
15. Which statement(s) regarding valuation method examples is (are) correct?
   I. A benefit of the book value valuation method is that it considers profitability of the business in its calculations.
   II. The straight capitalization method is useful for valuing businesses that require major investment.
   A. I only   C. Both I and II
   B. II only   D. Neither I nor II

16. All of the following statements about practical issues in cases that require business valuations are correct EXCEPT:
   A. A good financial services professional will develop a relationship with the client’s CPA and attorney, establishing their own value and explaining how the need for life insurance arises.
   B. It is the responsibility of the financial services professional to document all research and calculations for refining, negotiating, and drafting the final business valuation.
   C. In the case of MacDonald v. Commissioner and subsequent cases, it was determined that personal goodwill could exist and could be owned personally by the person who generated it.
   D. Personal goodwill can be transferred or sold as a capital asset subject to capital gains taxation to a buyer of the business.

17. Which statement(s) regarding the practice of skimming is (are) correct?
   I. Skimming, the practice of not reporting all sales on an income tax return, is an effective, but dangerous, way of reducing income tax.
   II. One consequence of skimming is that bank loans may be denied because reported income is not sufficient to service the requested loan.
   A. I only   C. Both I and II
   B. II only   D. Neither I nor II

18. Which statement(s) on getting a business ready to sell is (are) correct?
   I. Business owners interested in selling their business or retiring should start getting ready 2 to 3 years before the intended sale date.
   II. The current owner of the business may decide to remain critical to daily operations of that business, depending on their personal goodwill situation.
   A. I only   C. Both I and II
   B. II only   D. Neither I nor II

Paycheck Protection Program: Piecing Together the Loan-Forgiveness Phase

19. On April 27, how much money did Congress provide for the Paycheck Protection Program (PPP) to resume?
   A. $320 billion
   B. $500 billion
   C. $560 billion
   D. $26 billion

20. All of the following statements about eligibility for assistance under PPP are true EXCEPT:
   A. A business with more than 500 employees can qualify for a PPP loan.
   B. Business owners must certify that the PPP loan is necessary to maintain ongoing operations due to uncertainty caused by coronavirus.
   C. Independent contractors of a business do not count as employees for purposes of a business’s PPP loan; however, they may apply for their own loan.
   D. Businesses that accepted loans less than $2 million will be assumed to have made the certification in good faith and will not be subject to review by the Small Business Administration (SBA).
21. Which statement(s) about how payroll costs are defined for the purposes of PPP is (are) correct?
   I. Payroll costs include payment of federal, state, or local tax assessed on the compensation of employees.
   II. The SBA and Department of Treasury have limited cash compensation to $100,000, even though noncash benefits such as employer contributions to retirement plans or payments for employee benefits are not capped at $100,000.
   A. I only   C. Both I and II 
   B. II only   D. Neither I nor II

22. Which statement(s) about how a reduction in full-time employees affects PPP forgiveness is (are) correct?
   I. A borrower’s forgiveness will not be reduced for an employee who is fired for cause, voluntarily resigns, or voluntarily requests a reduced schedule during the covered period.
   II. An employer will not lose PPP loan forgiveness if they make a good-faith, written offer that consists of the same hours and wages to rehire a laid-off employee.
   A. I only       C. Both I and II
   B. II only       D. Neither I nor II

23. All of the following statements about the process for loan forgiveness are correct EXCEPT:
   A. The forgiveness application with instructions and optional demographic survey is 11 pages and is estimated to take an average of 180 minutes to complete, while the application process was more complex and time consuming.
   B. With the forgiveness process, the SBA can choose to review any size of loan at any time.
   C. If, following the lender issuing its decision regarding the loan forgiveness, the SBA agrees with the decision, the SBA will remit to the lender the appropriate forgiveness amount plus any interest accrued through the date of payment.
   D. If the SBA chooses to review a loan prior to the lender’s decision, it will notify the lender in writing and the lender must notify the borrower within 5 business days of receipt.

24. Which statement(s) about the loan forgiveness process is (are) correct?
   I. If a business owner cannot provide a complete forgiveness application, the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) provides that the loan may still be eligible for forgiveness following specific provisions.
   II. Financial advisors should have a working understanding of the PPP provisions and keep up to date on PPP since it changes almost daily.
   A. I only       C. Both I and II
   B. II only       D. Neither I nor II

**Retirement Income Planning Issues for 2021**

25. All of the following statements about recent changes to required minimum distribution (RMD) age legislation that may affect the retirement income planning of individual clients are correct EXCEPT:
   A. According to the CARES Act, someone who delayed taking their first RMD in 2019, with the intention of taking it in 2020, can now delay their first RMD until 2021.
   B. The IRS and Department of Treasury have issued a proposed regulation to update the life expectancy and distribution period tables used in calculating the RMDs from qualified retirement plans.
28. Which statement(s) about the financial support afforded by Section 113 of the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) for families who are having a child or adopting is (are) correct?
I. Although Section 113 permits an individual to take a withdrawal from an eligible retirement plan without incurring the additional 10 percent tax, the amount withdrawn is subject to federal and state income tax.
II. The maximum aggregate amount which may be treated as qualified birth or adoption distributions by any individual is $5,000, and by any couple is $10,000.
A. I only    C. Both I and II
B. II only   D. Neither I nor II

29. All of the following statements about hardship withdrawals from Section 401(k) plans are correct EXCEPT:
A. A hardship distribution cannot be greater than the employee’s need, including amounts necessary to pay any federal, state, or local income taxes.
B. The employee must give a written representation, including the use of an “electronic medium” to assert that they have insufficient cash or other liquid assets available to satisfy the financial need.
C. According to the definition of “electronic medium,” verbal representation via telephone is permitted to be used if it is recorded.
D. In the case of a loan distribution, the taxpayer needs to be aware that the withdrawal is not subject to the 10 percent additional tax.

C. Financial professionals should work with clients to determine the necessary amount of distributions for the client’s needs since the client is not bound by the usual RMD amount.
D. If adopted, the new life expectancy and distribution period tables would become effective for those individuals attaining age 72 on or after January 2021.

26. Which statement(s) about the modification of RMD rules for designated beneficiaries is (are) correct?
I. If an employee (or IRA owner) dies on or after the required beginning date, the general rule is that the remaining interest must be distributed at least as rapidly as it was being distributed prior to the death.
II. Under the 10-year rule, the entire interest must be distributed before the beginning of the 10th calendar year after the death of the owner.
A. I only    C. Both I and II
B. II only   D. Neither I nor II

27. All of the following statements about the repayment of loans from an eligible retirement plan are correct EXCEPT:
A. If the original due date for loan repayment is between March 27, 2020, and December 31, 2020, the repayment period has been extended one year—from 5 years to 6 years.
B. For qualified participants, interest on the loan will not accrue during the newly extended repayment period.
C. To qualify for the provision extending the repayment period, an individual must meet specific criteria, such as having been diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention.
D. In the case of a loan distribution, the taxpayer needs to be aware that the withdrawal is not subject to the 10 percent additional tax.
30. All of the following statements regarding small-employer pension plan start-up costs are correct EXCEPT:
   A. According to the SECURE Act, a small-business owner who introduces a qualified retirement plan may claim a tax credit of 50 percent for the plan's start-up costs in each of the first 5 years of the plan.
   B. To be eligible, employers cannot have more than 100 employees who received at least $5,000 of compensation in the preceding year, and at least one participant in the plan cannot be a highly compensated employee.
   C. Instead of claiming a tax credit, an employer may elect to deduct the start-up costs as a business expense and reduce the taxable income.
   D. The SECURE Act provides a new $500 per year tax credit for employers who already have a 401(k) plan or SIMPLE IRA plan that adds automatic enrollment or starts a new plan with this automatic enrollment feature.